BC Securities Commission
Service Plan, 2006 – 2009

106-04247/

BC Securities Commission Service Plan

This Service Plan sets out our strategy for the next three years. Copies are available electronically on the BCSC website at www.bcsc.bc.ca (*About the Commission*), or by writing to us at:

Public Inquiries
BC Securities Commission
PO Box 10142, Pacific Centre
701 West Georgia Street
Vancouver BC V7Y 1L2

Each BCSC division has an operating plan that describes how it will implement the strategies in the Service Plan to address identified risks. Copies of these operating plans are available by phoning or emailing our public inquiries group:

Direct: 604 899-6854
Toll-free: 1-800-373-6393 (BC, AB)
Email: inquiries@bcsc.bc.ca

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Accountability statement - BCSC Chair to Minister

Honourable Wally Oppal
Attorney General and Minister Responsible for Multiculturalism
Parliament Buildings
Victoria, BC V8V 1X4

Dear Minister:

The British Columbia Securities Commission is the independent provincial government agency responsible for administering the *Securities Act*. We protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

In 2001, the BCSC responded to the government's deregulation initiative by launching a project to design more streamlined and effective legislation. The result of the three-year project was a new Securities Act, passed in May 2004, and a full set of rules and industry guidance that we published for comment in June 2004. The government deferred implementation of the new legislation in November 2004 to consider industry concerns about the secondary market civil liability provisions and to give industry more time to prepare.

Since then, the BCSC has moved forward administratively to reform regulatory processes in much the same way we would have done under the new legislation. Although this new approach does not reduce the formal regulatory count, it can make regulation more effective and less burdensome.

We will continue implementing the new approach to regulation, using the knowledge we gained developing the new legislation. Our early experience indicates that, through creative and sensible administration, we can improve our effectiveness in dealing with market issues by moving away from the old rule-focused approach to regulation towards a more timely, flexible and cost-effective application of regulatory tools.

Our capital markets are highly integrated with other markets, nationally and internationally. Most BC-based public companies have investors in other provinces and must comply with the rules and deal with the regulators in those provinces. Most BC-based securities dealers operate in other provinces or belong to national self-regulatory organizations. It is therefore in British Columbia's interest for Canada to have efficient and effective securities regulation.

The BCSC devotes significant resources to working with our colleagues in the Canadian Securities Administrators. We jointly develop harmonized rules and cooperative regulatory processes with the aim of making Canadian securities regulation more efficient and effective. CSA members and governments are developing a passport system, and highly harmonized legislation, to meet the commitments made by the government in 2004 under A Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation. Through the passport system, market participants will have access to the capital markets in all participating provinces and territories by dealing with one regulator and complying with one jurisdiction's laws and rules. By participating actively in the passport project and other CSA initiatives, we hope to move the national regulatory approach in the direction we are taking in BC.

Our Service Plan for 2006 – 2009 identifies three key strategic risks that threaten investors or market integrity. These risks are:

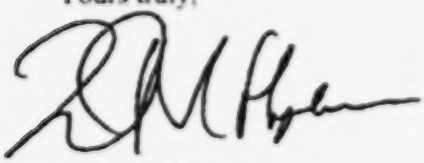
- Risk 1: Unsuitable investments
- Risk 2: Investment fads
- Risk 3: Abusive junior market practices

This plan details our three-year strategy. It was prepared under my direction and in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the plan, including the selection of performance measures and targets.

The plan is consistent with government's strategic priorities and overall Strategic Plan. We have considered all significant assumptions, policy decisions, and identified risks as of December 1, 2005 in our planning activity.

I am accountable for ensuring the BCSC achieves the objectives identified in the plan and for measuring and reporting actual performance.

Yours truly,



Douglas M. Hyndman
Chair

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Organization overview

BCSC mission

The British Columbia Securities Commission (BCSC) is the independent provincial government agency responsible for regulating securities trading in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

Enabling legislation

The BCSC's enabling legislation is the *Securities Act,* RSBC 1996, c. 418.

Governance structure

The BCSC is governed by a board of 10 commissioners appointed by the provincial government. The commissioners have overall responsibility for administration of the *Securities Act* and perform three functions:

1. Serve as the BCSC's board of directors
2. Make rules (with the consent of the Minister responsible for the *Securities Act),* and issue guidance, to regulate the securities industry
3. Act as an administrative tribunal and make regulatory decisions under the legislation

As members of an administrative tribunal, commissioners form hearing panels to:

- Adjudicate enforcement cases brought forward by staff and, when appropriate, impose regulatory sanctions
- Review regulatory decisions made by BCSC staff, exchanges, or self-regulatory organizations, upon application by BCSC staff or persons affected by the decision

The BCSC's Governance Policy and Conflicts of Interest Rules are posted on our website at www.bcsc.bc.ca (*About the Commission*). These include information about:

- The terms of reference for the commission, the Chair, the commissioners, the Audit Committee, and the Human Resources Committee
- Appointment, evaluation, and compensation of commissioners
- Expected standards of conduct for commissioners and staff

Commissioners

We have four full-time and six part-time commissioners:

- Doug Hyndman, Chair and Chief Executive Officer
- Brent Aitken, Vice Chair
- Adrienne Salvail-Lopez, Vice Chair
- Robin Ford, Full-time Commissioner
- Neil Alexander
- Joan Brockman
- Marc Foreman
- John Graf
- Robert Milbourne
- Roy Wares

Two committees help the commission fulfill its financial and human resources oversight responsibilities.

The *Audit Committee* reviews for approval by the commission our public reporting of financial information, monitors our control systems, and oversees both internal and external audit functions. The Audit Committee members are:

- John Graf, Chair
- Joan Brockman
- Marc Foreman

The *Human Resources Committee* ensures that we follow appropriate procedures for the selection, evaluation, compensation, and succession of commissioners, executives, senior management, and employees. The committee is also responsible for seeing that our human resources and compensation policies and practices support the Service Plan. The Human Resources Committee members are:

- Robert Milbourne, Chair
- Neil Alexander
- Roy Wares

Primary business

The BC Securities Commission regulates the conduct of market participants, including:

- Issuers that raise capital through security offerings, and their directors and officers
- Securities firms, their directors and officers, and their employees registered to advise and trade in securities

We carry out our operating activities in the ways described below.

- We set disclosure and conduct standards for market participants such as registered securities firms and publicly-traded companies.

- We register firms and individuals who sell securities in the province.
- We monitor the conduct of market participants for compliance with the regulatory requirements. We educate market participants about their regulatory obligations. We choose from a wide range of remedies when we find non-compliance.
- We investigate complaints, and gather information, to identify abusive market conduct.
- We take decisive enforcement action against those responsible when warranted by serious cases of misconduct.
- We educate investors about financial matters and how to protect themselves against fraud and other abusive market practices.

We have four goals that guide our operations in the areas of compliance, enforcement, policy, and education. These goals are described in the *Goals, performance measures, and strategies* section of this Plan.

Key stakeholders

Our stakeholders have diverse yet interdependent interests, both provincial and national in scope. We consult them in various ways to understand their needs and interests, and we communicate with them to explain our requirements, expectations, and plans.

- *The public* – which relies on us to foster capital markets that contribute to the economic well being of British Columbia
- *Investors* – both retail and institutional, who seek to invest their savings in fair and efficient securities markets
- *Issuers* – public and private companies that rely on the capital markets to fund growth and diversification
- *Securities firms* – registered to provide investment services to both users and suppliers of capital
- *The provincial government* – to which we are accountable
- *Other Canadian regulators* – with which we develop and implement joint policy, technology, and education initiatives through the Canadian Securities Administrators (CSA)

Business areas, executives, and service delivery

We conduct our regulatory activities through eight business areas, each led by a member of the executive management team. We also work with self-regulatory organizations and other regulators.

Business areas

Office of the Chair
Doug Hyndman, Chair and Chief Executive Officer
Advises and supports the commissioners in discharging their board and administrative tribunal functions. Leads key stakeholder relationships with government, other regulators, industry organizations, and market participants.

Executive Director's Office
Brenda Leong, Executive Director
Manages the regulatory, financial, and administrative operations of the BCSC. Leads strategic planning and economic analysis.

Capital Markets Regulation
Lang Evans, Director
Monitors registered firms for compliance with the *Securities Act*. Registers firms and their salespeople . Reviews applications for exemptions from regulatory requirements. Oversees self-regulatory organizations. Conducts education for securities firms.

Corporate Finance
Martin Eady, Director
Reviews and receipts securities offering documents. Reviews applications for exemptions from regulatory requirements. Monitors public company disclosure, including financial statements. Monitors exempt capital raising and insider reporting. Conducts education for reporting issuers and their advisors.

Enforcement
Sasha Angus, Director and Chief Litigation Counsel
Investigates possible breaches of the *Securities Act* and takes enforcement action against alleged wrongdoers. Conducts administrative hearings before commission panels, and represents the BCSC before the courts.

Communications & Education
Patricia Bowles , Director
Develops and implements education programs to teach investors what they need to know to protect their financial interests and make informed investment decisions. Manages corporate communications and media relations. Supports industry education initiatives.

Information Management
Peter Grant, Director and Chief Information Officer
Implements technology strategies to assist the BCSC in its operations. Provides information to industry and the public through the BCSC website and our contact centre. Supports BCSC staff through information systems, knowledge sharing, legal research, document and records management, business continuity planning, and project management.

Human Resources & Administration
John Hinze, Director and Chief Financial Officer
Directs human resource, financial, and facilities management functions. Supports the BCSC through recruiting, staff training, performance management, and succession planning. Manages financial and physical risks.

Self regulation

While our rules apply to all securities firms, we monitor directly only those firms registered as portfolio managers, exchange contract dealers, and scholarship plan dealers (representing approximately 60% of registered firms and 10% of the individuals registered in BC). Under powers provided in the *Securities Act*, we rely on self-regulatory organizations (SROs) to perform key regulatory functions related to investment dealer and mutual fund dealer firms. We oversee these organizations in cooperation with our regulatory colleagues in other jurisdictions. These SRO organizations are:

- *The Investment Dealers Association of Canada (IDA)* – the national securities industry association and self-regulatory organization for investment dealers, which registers securities firms and their representatives and regulates their conduct and capital adequacy

- *The Mutual Fund Dealers Association of Canada (MFDA)* – the self-regulatory organization for mutual fund dealers, which regulates their conduct and capital adequacy

- *Market Regulation Services, Inc. (RS)* – the market regulation services provider, which monitors trading activity on the Canadian equity markets and helps monitor listed companies' compliance with exchanges' timely disclosure and other requirements

Exchanges

The BCSC shares responsibility for supervising the operations of the TSX Venture Exchange with the Alberta Securities Commission. We have authorized three other exchanges (TSX, NASDAQ, and CNQ) to carry on business in British Columbia, and rely on other jurisdictions to oversee the integrity of their operations.

National regulation

The BCSC participates in Canada's national system of securities regulation through the Canadian Securities Administrators (CSA). Through executive and staff committees, the CSA seek to avoid duplication and streamline the regulatory process by collaborating on compliance and enforcement activities, rule-making, and education programs.

The CSA are working with governments to develop a passport system for securities regulation. The goal of the passport system is to give each market participant access to the capital markets in participating jurisdictions by dealing with the regulator and the securities requirements in its home province.

Through CSA, we rely on national systems to collect and disseminate much of the information essential to our operations. These systems are:

- System for Electronic Document Analysis and Retrieval (SEDAR)
- National Registration Database (NRD)
- System for Electronic Disclosure by Insiders (SEDI)
- National Cease Trade Order Database (NCTO)

International cooperation

The BCSC regularly cooperates and coordinates with American federal and state regulators in enforcement matters. We are also active in three organizations that represent North American, pan-American, and international securities regulators, respectively:

- *North American Securities Administrators Association (NASAA)* – an organization of Canadian provincial, American state, and Mexican federal securities regulators
- *Council of Securities Regulators of the Americas (COSRA)* – a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean
- *International Organization of Securities Commissions (IOSCO)* – the international authority for global cooperation related to surveillance, enforcement, and information exchange among securities regulators

Office location

The BCSC's office is at 701 West Georgia Street. Our public reception is on the 12th floor.

Strategic context

BCSC mission

Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

BCSC vision

Our vision is to make British Columbia the best place in North America to invest and raise capital. To do this, we must remain leaders in securities regulation by being innovative, cost effective, and tough but fair.

Values

We embrace five values to help fulfill our mission:

- *Excellence* – we commit to high standards and take pride in our work
- *Service* – we provide efficient, timely, and responsive service
- *Integrity* – we act fairly and ethically
- *Accountability* – we take responsibility for meeting our commitments
- *Resourcefulness* – we are proactive, innovative, and cost effective

In pursuing our vision, and carrying out the activities that support our mission, we use a performance management system to measure and reward these four behaviours:

- *Drive for results* – Exhibit a sense of urgency. Push for high levels of accomplishment. Think of better ways to do our jobs. Set and meet specific, measurable, achievable, relevant, time-based objectives.
- *Effective communication* – State expectations clearly, express ideas well, and keep others informed. Use plain language to communicate.
- *Problem solving* – Anticipate and focus on important, well-defined problems. Break complex problems into manageable parts. Use good judgment to form opinions by weighing evidence and testing premises. Measure the effectiveness of implemented solutions.
- *Teamwork and cooperation* – Work together to maximize each others' talents to accomplish the BCSC's goals. Act professionally and cooperatively. Form teams to develop and implement solutions. Contribute to team effectiveness by thinking independently. Support and advance team goals.

The BCSC's approach to regulation

We regulate to protect investors and market integrity. Our legal authority and resources equip us with some powerful regulatory tools. We can:

- Impose requirements through rules and other regulatory instruments
- Provide guidance
- Monitor compliance and demand corrective action
- Take enforcement action
- Educate market participants and investors

Regulation inevitably imposes costs through regulatory fees, compliance costs, and restrictions on business activity. Investors ultimately pay these costs. We aim to design our regulatory interventions so they generate the greatest investor protection and market integrity benefits for the least cost.

To obtain maximum value from our legal authority and resources, we focus them on significant investor and market integrity threats.

We regulate by setting the standards market participants must achieve and by reinforcing the standards through other regulatory tools – guidance, compliance, enforcement, and education. We regulate in a way that requires industry to focus on meeting the standards, not just the prescriptive requirements. Sometimes we can engage industry in designing acceptable solutions without new regulation. Regulating in this way gives more flexibility to industry and puts the responsibility to comply where it belongs, with issuers' and securities firms' senior management and directors.

The BCSC uses a problem-solving methodology to identify and analyze market risks. We then respond using the most effective regulatory tools in a way that is calculated to achieve measurable results.

1. Problem definition

The problem definition stage is critical for allocating our resources appropriately. Defining a problem properly involves three steps: first, demonstrating that a problem warranting regulatory intervention exists; second, defining the problem with the precision necessary to fix it; and, third, developing specific and practical criteria to measure the effectiveness of the solution.

2. Tool selection

Once we define a problem precisely, the next step is to consider which regulatory tools will result in the most positive change with the least regulatory burden.

Rules are one of the tools we use. However, as rules are generally the most intrusive and expensive form of regulatory intervention, we carefully consider whether a rule is the best option for responding to a market threat. If a rule is needed, we design it to address

the problem and impose the minimum necessary cost on those who must comply with it. Our approach to making rules is described in Goal 3: *Advance smart rule-making and guidance*.

Whether we choose rule-making, guidance, compliance or enforcement action, or education, proper tool selection means carefully weighing all options. A good tool selection process includes stakeholder consultations and evaluates the costs and benefits of all reasonable options. We seek solutions that exhibit some or all of the attributes described below.

- The solutions create an environment where market participants are responsible for their business and compliance decisions. We want to influence behaviour by seeking market outcomes that align with our regulatory standards, rather than by forcing compliance with a regulatory checklist.
- They hold senior management accountable for their compliance decisions. We are expanding our compliance and enforcement actions to include senior management where appropriate.
- They help market participants understand their obligations and our expectations for their conduct.
- They are flexible, allowing industry to design processes to achieve outcomes that are efficient for them. We recognize that there is often more than one way to meet a specific regulatory standard.
- They are timely. Our regulatory actions focus on current problems, taking into account rapidly changing market conditions and the implications for investor protection and market integrity.
- They make responsible use of BCSC resources and legal authority.

When we use the phrase "outcomes-based" in reference to any of our regulatory activities, we mean to convey the attributes described above.

National and international regulatory standards

Our capital markets are highly integrated with other markets, nationally and internationally. Most BC investors, public companies, and securities firms must rely on and comply with regulatory standards of other provinces and countries. Regulators in those jurisdictions rely on us to regulate BC market participants to appropriate standards.

Through our participation in national and international regulatory organizations we help to define securities regulatory standards. We also consider these standards and the approaches of other jurisdictions in developing and evaluating our own initiatives. The Objectives and Principles of Securities Regulation published by IOSCO have become the international standard for evaluating regulatory systems. We have participated with other CSA members in a self assessment of our system against this standard and will continue to do so as we reform our requirements and processes.

Planning context and key strategic issues

We identify the most serious threats to investors and markets, and allocate resources to deal with these threats efficiently and effectively.

This year, guided by risk management standards, staff identified risks that could threaten the achievement of our mission and goals. Staff assessed the effectiveness of their existing practices for mitigating or managing the identified risks, and recommended changes to strengthen them. This work yielded standardized "risk registers" for each operating area, from which staff nominated the most significant risks for discussion by the commission.

The commission narrowed the proposed risks to a manageable few, and added other items it felt were of critical importance. Having systematically considered the likelihood of their occurrence, and the consequences of not managing them adequately, the commission prioritized the most pressing problems and considered their impact on our existing Service Plan. Three key risks emerged from this process, which we put to the further test of discussing with our external policy and legal advisory groups to ensure that we had taken full account of market considerations.

The risks we are most concerned about for the current planning period remain the same as for the last period's Service Plan. We have rewritten Risks 1 and 2 to reflect our better understanding of the issues. Risk 3 has not changed. The risks relate to:

1. Unsuitable investments
2. Investment fads
3. Abusive junior market practices

In addition to these risks, we identified two opportunities in last year's plan. These were *Continued development of outcomes-based regulation* and *Reforming national approach to securities regulation*. In 2005-2006, we trained staff and amended some of our processes as we continued to move to a more outcomes-based regulatory system. We also worked with the CSA to make the Canadian regulatory system more efficient and effective, and with the government and the CSA on the passport initiative.

This year, we will continue to work with our CSA colleagues and the government to improve the Canadian regulatory system. We discuss this in Strategy 3.1: *Work with government and other regulators to advance smart rule-making and guidance for BC market participants.*

The BCSC began applying enterprise-wide risk management practices last year. We have made significant progress to date and expect to realize the long-term benefits described below through consistent application of these practices over time.

- We will look more methodically for market threats, find them sooner, and respond more quickly.
- We will be better able to identify operating risks and to recognize where we need to strengthen internal controls.
- We will be more proficient at identifying the most important problems to work on, rather than the most feasible.
- We will better allocate our resources to serious problems that relate to our regulatory objectives.
- A mature risk management practice will make our organization more accountable for both the risks we manage successfully, and those we do not.

Risk 1: Unsuitable investments

Risk statement
Event: Firms fail to ensure their salespersons fulfill their suitability obligations.
Result: Investors purchase unsuitable products. This undermines our investor protection mission.

Registered securities firms and their salespersons play a key role in the market as intermediaries and providers of expert advice to investors. We describe our oversight and monitoring of firms in Goal 1: *Promote a culture of compliance*.

Firms have a responsibility to develop, implement, and monitor effective compliance systems for their regulatory obligations. One of the key obligations is the suitability obligation, which requires firms and their salespersons to ensure that any recommended investment is suitable for the client, given the client's investment needs and objectives. When clients propose investments that do not appear suitable, firms and salespersons must make a reasonable effort to advise them of this before executing the trade.

All investments carry some degree of risk. This risk compounds when investors purchase securities that are not suitable for them. Compliance with suitability obligations has been a perennial concern that consumes considerable regulatory resources, and yet it remains a leading source of investor complaints received by the IDA and the MFDA.

We and the IDA and MFDA do take action against registrants for breaches of suitability requirements. However, we need a better understanding of the nature of the suitability problem in order to design a solution that will yield a measurable improvement in suitability-related compliance.

We describe our plans for the first year of work in this area in Strategy 1.1: *Assess the level of compliance with firm and salesperson suitability obligations.*

Risk 2: Investment fads

Risk statement
Event: Investors put too much of their investment portfolios in currently popular securities whose risks they do not fully understand. *Result: Investors end up with portfolios that do not meet their stated investment goals and risk tolerances. This could lead to unnecessarily large losses to investors and threatens our investor protection mission.*

The securities market is vulnerable to waves of investor interest in a particular security, or type of security. Media coverage, advertising, and word-of-mouth fuel these trends. Investors expose themselves to the risk of sizeable losses when they over-concentrate their portfolios in a single security or type of security. The recent popularity of income trusts as a class of securities is an example of this risk. Some salespersons recommend popular security types to clients, or fulfill client demand for these securities, without assessing their suitability for the client's portfolio. Some issuers, seeking to capitalize on investor interest in these securities, create new products to meet demand.

Last year, we began a cross-divisional project, involving the combined expertise of our corporate finance, capital markets regulation, and knowledge management teams, to monitor emerging retail trends and to alert investors about the risks of investing in particular security types. We will continue this work under Strategy 1.2: *Identify and respond to emerging retail investment trends.*

Risk 3: Abusive junior market practices

Risk statement
Event: BC-connected market participants profit illegally on the US-based over the counter market. *Result: This harms the reputation of the BC market and the competitiveness of the BC securities industry.*

Vancouver is a major market for raising venture capital in the public markets, and we want to continue being known as a leading centre for financing legitimate start-up companies. However, there persists a sub-culture of unscrupulous people within our local market who seek to profit through abusive activities involving issuers whose

securities trade in the US-based over-the-counter market[1]. Although BC investors are not generally the targets of over-the-counter market schemes, these activities damage the credibility and reputation of BC issuers and BC markets.

In 2005, we identified over 400 OTCBB listings as BC-connected issuers, which represents around 10% of all OTCBB listings. We receive a significant number of inquiries from the SEC relating to over-the-counter issuers with a BC connection. The disclosure of some BC-connected over-the-counter issuers, and trading activity in their securities, do not comply with BC or US securities laws.

Last year we undertook to pursue BC-based misconduct regardless of where the victims lived. We recognized the need to strengthen our detection of abusive over-the-counter market activity connected to BC and allocate greater compliance and enforcement resources to this problem.

We will continue this work in Strategy 2.1: *Disrupt abusive junior market practices in British Columbia.*

1 The over-the-counter market discussed here is primarily the Over the Counter Bulletin Board (OTCBB) and the pink sheets. The OTCBB is not a stock exchange but a quotation medium where market makers in an issuer's shares publish the price at which they are prepared to both buy and sell.

Goals, performance measurements, and strategies

This section describes our goals, the performance measurements by which we track our progress in achieving them, and the strategies that support them.

We have four goals for cost-effective regulation that collectively summarize how we carry out our mission:

1. Promote a culture of compliance
2. Act decisively against misconduct
3. Advance smart rule-making and guidance
4. Educate investors

The performance measurements for each goal help us, and our stakeholders, to assess the progress we are making to achieve our goals. This year, we dropped two measurements and added three new measurements.

We select measurements based on the following criteria:

- Connection to our goals. We select measurements that show our progress in achieving our goals and, through them, our mission.
- Connection to the results of our work. We select measurements that show the results of our efforts, not the amount of effort itself. Thus, we measure quality and effectiveness, rather than count regulatory processes. While we know that efficiency measurements that compare outputs relative to cost can also help stakeholders to gauge progress, we have not yet found good efficiency measurements beyond the statistics included in our financial outlook.
- Longevity. We choose measurements we will be able to track over several years, and whose trends will be informative.
- Measurability. We choose measurements only if we can accurately collect data and form baselines. We also need to be able to report on each measure in a timely way. An overview of our performance measurement systems is in Appendix A.

The strategies listed under each goal support the achievement of the goal. Three of the strategies also address the risks identified in the previous section. This is a three-year plan. Some of the strategies continue from last year's plan; some will continue in future years' plans. We will complete the work specifically described in each strategy by the end of the fiscal year 2006-2007.

At the end of this section, we have listed the service standards for exemptions and prospectus reviews.

Goal 1: Promote a culture of compliance

Investors rely on securities firms to take their compliance responsibilities seriously, and on issuers to provide accurate, complete, and timely public disclosure. Effective regulation depends on market participants having effective systems and controls in place to comply with their regulatory obligations, and then reviewing and modifying them as necessary. Regulatory intervention should be necessary only occasionally to correct non-compliance. An effective culture of compliance, which starts with management integrity, aligns the private interests of market participants with the public interest in a fair, efficient, and reputable securities market.

Our compliance actions aim to monitor behaviour and, if necessary, change it. In the course of monitoring firms and issuers, we seek to identify and correct non-compliant activity.

The compliance actions we rely on today include:

- Reviewing issuer disclosure
- Reviewing sales practices of securities firms, directly and through self-regulatory organizations
- Examining the financial stability of securities firms, directly and through self-regulatory organizations
- Imposing conditions on registration
- Monitoring timely filing of documents
- Issuing reports on compliance concerns
- Issuing warning letters
- Educating market participants about current and proposed rules

We have four measurements for this goal:

- Measurement 1.1: *Continuous disclosure improvement*
- Measurement 1.2: *Compliance with filing requirements*
- Measurement 1.3: *Average number of deficiencies per securities firm examination*
- Measurement 1.4: *Timeliness and relevance of industry education*

Four strategies support this goal:

- Strategy 1.1: *Assess the level of compliance with firm and salesperson suitability obligations*
- Strategy 1.2: *Identify and respond to emerging retail investment trends*
- Strategy 1.3: *Define the nature and severity of continuous disclosure failures*
- Strategy 1.4: *Apply our portfolio of compliance processes to the most important problems*

Performance measurements for Goal 1

Promoting a culture of compliance is a key goal for protecting investors and fostering fair and efficient markets. We use four measurements to assess issuer and firm compliance systems and controls.

PERFORMANCE MEASUREMENTS			TARGETS		
	04/05 Actuals /Baseline	**05/06 Estimate**	**06/07 Target**	**07/08 Target**	**08/09 Target**
1.1 Percentage of reviewed issuers that reduce deficiencies in their continuous disclosure	No data for 2004/2005	TBD: will be available in 05/06 Annual Report	Improve on 05/06	Improve on 06/07	Improve on 07/08
1.2 Percentage of BC-prime reporting issuers on defaulting issuers list	4 measurements: Late filing: 16% Unpaid fees: 17% Inadequate disclosure: 20% Total: 30%	4 measure-ments TBD: will be available in 05/06 Annual Report	Improve on 05/06	Improve on 06/07	Improve on 07/08
1.3 Average number of deficiencies per examination in Capital Markets Regulation	6.8 /32 categories	TBD: will be available in 05/06 Annual Report	Improve on 05/06	Improve on 06/07	Improve on 07/08
1.4 Timeliness and relevance of industry education - Percentage of attendees believing time well spent - Percentage of attendees applying content	No data for 2004/2005	TBD: will be available in 05/06 annual report	80% satis-faction and usage	80% satis-faction and usage	80% satisfaction and usage

Measurement 1.1: Continuous disclosure improvement

Our Corporate Finance division reviews issuer disclosure for non-compliance. Under our risk-based review system, we are more likely to select some issuers for review. In our reviews over the last year, we identified some issuers with non-compliant disclosure.

At the end of each fiscal year, we will analyze the subsequent continuous disclosure of a statistically significant sample of these issuers. The review methodology will test for two types of improvement:

1. A measurement for year-over-year improvement that demonstrates whether an issuer took action in response to our compliance efforts

2. A measurement for whether that issuer's new disclosure materials are compliant.

We will limit the assessment to the specific disclosure documents that do not comply for each issuer. These could include interim and annual financial statements, management discussion and analysis, and mineral exploration results. This measurement will always lag by one year because we will have to wait for the next filing cycle to evaluate improvements in the prior year's disclosure. In May 2008, we will report on disclosure improvements resulting from reviews carried out between April 2006 and March 2007.

The results from this review will show the extent to which our detailed CD review work motivated non-compliant issuers to improve their disclosure. This measurement will not gauge compliance across all issuers; it focuses only on the issuers we choose to review through our risk-based selection criteria and find to have non-compliant disclosure.

We are not able to benchmark this measurement against the disclosure compliance of other jurisdictions because they do not collect similar data. Although we have worked with other jurisdictions to compare our disclosure review programs, the analysis focuses on the regulatory processes for issuer selection and review, not the outcomes of the programs.

Measurement 1.2: Compliance with filing requirements

The *Securities Act* requires reporting issuers to file certain information on time, in the required form, and with the appropriate fee. One measurement of a compliant industry is that issuers consistently meet these filing requirements. We routinely put issuers that do not file or pay fees on time on a list of defaulting issuers. We also put an issuer on the list if we assess that a filing is clearly not in the required form.

We will track the total percentage of BC-prime reporting issuers on this list during each year, and categorize them by late filing, inadequate filing, or unpaid fees. We expect the percentage of BC-prime issuers that appear on the list each year to decrease over time.

Analyzing this data might reveal that, despite a general improvement in compliance culture by other measures, the number of issuers in default increases in a particular year for one of two reasons. First, there might be transitional increases in non-compliance as we change our standards (for example, by imposing new disclosure requirements or shortening filing cycles). Second, a general downturn in the economy, the market, or a particular sector could put more issuers in financial difficulty and increase the risk that they would not meet their filing requirements. We should be able to account for these factors when interpreting the results.

We will benchmark BC-prime issuers against other BC reporting issuers on late filings. We currently track late filings of non-BC-prime issuers and timely filing is relevant to the culture of compliance in the broader market. We do not track non-BC-prime issuers whose filings do not comply for other reasons.

1.2 BENCHMARK MEASUREMENT	BENCHMARKS	
	04/05 Actuals /Baseline	05/06 Estimate
Percentage of non BC-prime, BC-reporting issuers on defaulting issuers list because of late filing	12%	TBD: will be available in 05/06 Annual Report

Measurement 1.3: Average number of deficiencies per securities firm examination

Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using risk-based assessment criteria, we examine those firms that pose the highest risk more frequently and report results using 32 categories of deficiencies.

In fiscal 2006-2007, we will report the deficiencies per examination based on the 46 categories we use today, and the deficiencies per examination based on the year-end categories. As we add, combine, or eliminate deficiency categories, we will need to reset the measurement. Our target will be to see the overall number of deficiencies reported across categories decline over time.

This measurement has two limitations. First, because we do risk-based examinations, we place a priority on reviewing firms for which we already have compliance concerns, or that otherwise pose a higher-than-average risk to investors or market integrity. We expect this practice to uncover a higher average number of deficiencies than if we reviewed a cross-section of all firms. Second, we may also decide in a particular year to review all firms for specific compliance problems, which would raise reported deficiencies in defined areas. To neutralize this bias, we will adjust for the results of targeted examination sweeps.

We will not be able to benchmark this measurement against other commissions. While they also track deficiencies, no other jurisdiction follows the same system for summarizing its examination results.

Measurement 1.4 Timeliness and relevance of industry education

We design our industry education programs to help market participants understand and comply with securities regulatory requirements.

Our industry education programs aim to communicate important regulatory information when market participants need it most. We will measure the timeliness and relevance of our programs by surveying participants one week after each session. We will ask whether participants were satisfied with the content of the program, and whether they are now applying what we taught.

Discontinued measurement: Financial risk of BC-based IDA members

We seek to measure regulatory compliance, not business or operating risks. Last year, we proposed reporting on the percentage of BC-based IDA members that fell in the low and medium-low risk segments of the IDA risk model for financial compliance at its member firms.

As the IDA financial risk model includes certain aspects of business risk at their member firms, we will discontinue use of this measure and seek others more directly focused on compliance.

Strategies supporting Goal 1

Strategy 1.1: Assess the level of non-compliance with firm and salesperson suitability obligations

Lead: Capital Markets Regulation

Our work in this strategy will focus on the specific issues covered in Risk 1: *Unsuitable investments*.

Through disciplined analysis of available information, and focused follow up, we will be able to define the scope and frequency of valid suitability concerns, and how they occur. This will allow us to better focus our regulatory response to deal more effectively with the problem.

We are participating in a joint CSA/SRO project to modernize and reform the Canadian registration system. One important component of the project is to develop IDA and MFDA rules to improve account-opening requirements, disclosure to clients of costs and conflicts, and account performance reporting. By strengthening these requirements, SROs will give investors more relevant information to evaluate the investment advice they receive.

We will work closely with the SROs to better define the suitability problem with emphasis on two areas.

1. Better understand the causes of suitability-related problems

For scholarship plan dealers, IDA member firms, and MFDA member firms, we will review suitability complaints and analyze this data for patterns and trends including:

- The type of product
- Common client profiles associated with suitability issues
- Concentration in a particular industry segment, geographical area, or registration category

2. Apply better understanding to strengthen existing compliance processes

Coincident with the review described above, we will coordinate with SROs to reinforce our regulatory standards where needed. We will respond to significant compliance

control weaknesses, and other problems we identify in firms or the industry. We will do this by applying one or more of our regulatory tools to tailor an outcomes-based solution to the compliance problems. These include imposing proficiency requirements and conditions of registration, issuing examination letters, taking enforcement action, and encouraging industry-led solutions.

Strategy 1.2: Identify and respond to emerging retail investment trends

Lead: Corporate Finance

Our work in this strategy will focus on the specific issues covered in Risk 2: *Investment fads*. We will continue work undertaken last year to monitor emerging retail trends and to alert investors about the risks of investing in particular security types.

Under our monitoring program, we will examine securities sold through prospectus and exempt offerings. We will review offering memorandums and exempt distribution reports to gather information about the types of products issuers are selling. We will also explore other sources of trend information. Knowing sooner what security types are becoming popular in the retail market will allow us to better manage the risks to investors by following up on sales practices and taking action to correct non-compliant issuer disclosure.

Once we have identified a security or security type that is growing in importance in retail portfolios, we will take action on four fronts.

1. Gather information about the selling activity in the security, and take appropriate action against a firm that has not conducted adequate due diligence on the security or given proper suitability advice to clients.
2. Consider the underwriting practices of the securities firms that are significantly involved in underwriting the security type.
3. Step up our review of issuer offering documents for clear disclosure about the business and key risk factors. If the security type is sold under exemptions, we will review the offering memorandums to see if they meet disclosure requirements.
4. Educate investors about the types of investments they are unlikely to understand well enough to protect themselves and give them the knowledge to challenge the advertised or promoted benefits. We will choose the most cost-effective distribution channels for disseminating relevant and timely information about these security types to investors, focusing on the risks of the investments and the questions they should ask salespersons before they decide to invest.

Strategy 1.3: Define the nature and severity of continuous disclosure failures

Lead: Corporate Finance

Continuous disclosure obligations for reporting issuers are central to achieving our mission. Issuers that fail to comply with these obligations pose a risk to investors and the market. Continuous disclosure can be misleading either because issuers disclose untrue information or because they delay disclosing true information, making the issuer's outstanding disclosure misleading. Whether or not the failure to comply is intentional, actions that mislead the market can harm investors and market integrity in the following ways:

- Investors may make investment decisions based on misleading or incomplete information, and then suffer losses when the true state of affairs is revealed
- Insiders who know the truth may profit from trading while the market is misled
- Insiders may provide selective disclosure to some investors who profit from information not broadly known in the market
- Expert investors who closely scrutinize the issuer may be able to detect the misleading or undisclosed information and may gain an extra advantage over retail investors

Reviewing public company continuous disclosure is one of our core regulatory functions. We detect potential deficiencies through a systematic internal continuous disclosure program and also from leads provided by other regulators and industry sources. We then investigate potential deficiencies through our corporate disclosure, compliance, and case assessment branches. When we identify misleading disclosure, we take enforcement action through our defaulting issuer's list, cease trade orders, settlements, or hearings.

Recent disclosure controversies have caused us to consider more methodically whether those individual occurrences of disclosure failures indicate a pervasive problem. To determine how pervasive disclosure failures are among BC-based issuers, we will apply risk-based criteria related to disclosure failures to a pilot group of the most significant BC-based issuers. This pilot program will create a manageable number of leads for stepped up review by compliance staff.

Once we decide an issuer warrants further investigation, we will review who within the issuer knew what, when they knew it, and whether the issuer has adequate controls to meet its disclosure obligations.

In those cases where we uncover non-compliance and inadequate systems and controls, we will act on them. If untimely disclosure is a pervasive problem, we will design outcomes-based compliance tools to reduce the incidence of this problem among BC issuers. If we uncover serious cases of issuer non-compliance, we may take enforcement action to reinforce our regulatory standards.

Strategy 1.4: Apply our portfolio of compliance processes to the most important problems

Lead: Corporate Finance for issuer initiatives; Capital Markets Regulation for Capital securities firm initiatives

We use a range of compliance processes today, as described in our introduction to Goal 1: *Promote a culture of compliance*. We have a standing commitment to assess the effectiveness of our current regulatory processes to maximize the impact on compliance for the time and other resources we invest in the process. We will develop new processes across our operations to encourage the outcomes we want to see in a cost-effective way.

Since we monitor and inspect a very broad range of market activity using finite compliance resources, we constantly seek ways to refine our compliance approach. When evaluating our compliance programs, we ask ourselves questions such as:

- Do our compliance tools address the external risks most relevant to our mission?
- Have we selected the compliance tools that maximize our cost-effectiveness in managing those risks?
- Do our compliance processes hold securities firms and issuers – and their senior managements – accountable for their compliance decisions?

In fiscal 2005-2006, we took the first steps towards improving the effectiveness of our current regulatory processes in light of these questions. We reviewed and documented our processes at a high level with the objective of quickly identifying obvious areas for improvement. We will build on this work next year by examining in detail our compliance processes with a view to strengthening and better aligning them to mission-critical areas. We will continue implementing enterprise-wide risk management to make us more effective at selecting issuers and securities firms for review and at responding to compliance failures.

Goal 2: Act decisively against misconduct

Decisive action involves investigating complaints, and our own leads, to identify market conduct requiring a compliance or enforcement response. It means responding to inappropriate activities in a timely way through compliance actions, and to serious or deliberate illegal activities through enforcement actions. This goal supports our mission to protect investors and ensure securities markets are fair and competitive.

We promote compliance through the various strategies outlined in Goal 1: *Promote a culture of compliance*. We use enforcement to deter misconduct and to remove from the market those who pose a serious threat to investors or market integrity.

Enforcement actions in the form of proceedings before the commission and the courts are powerful tools to deter misconduct and we must use them judiciously. To make the best use of our resources, we also consider other regulatory actions, including:

- Publishing the names of defaulting issuers
- Issuing cease trade orders against issuers, management, and insiders for filing deficiencies
- Issuing warning letters
- Obtaining undertakings
- Placing conditions on registrations
- Referring cases for criminal prosecution

We use a risk-based approach to select and prioritize the cases we litigate. Cases begin internally in our intelligence, case assessment, and compliance teams. We also take up cases referred to us by RS, the IDA, and the MFDA.

We assess the cases we will pursue using the following criteria:

- Impact on BC investors and markets
- Relevance to our mission and the strategic priorities in our Service Plan
- Severity of the misconduct
- Deterrent effect of a enforcement action
- Strength of evidence

We have two measurements for this goal:

- Measurement 2.1: *Early detection of misconduct*
- Measurement 2.2: *Effective allocation of enforcement resources*

Three strategies support this goal:

- Strategy 2.1: *Disrupt abusive junior market practices in British Columbia*
- Strategy 2.2: *Hold firms, and their directors and officers, accountable through enforcement action*
- Strategy 2.3: *Improve efficiency of enforcement processes*

Performance measurements for Goal 2

Acting decisively against misconduct involves detecting the misconduct, choosing the right cases to investigate, and applying a variety of tools to deal with the misconduct. Standard enforcement measurements, including those generally used by CSA members, focus on counting enforcement actions, such as the number of new enforcement cases opened, or settlements reached in a year. Although we keep this information, we have decided against using such output measurements because they do not adequately reveal whether we are acting decisively against misconduct. Outcomes-based measurements will better show our progress in achieving this goal. We will use two measurements to assess our effectiveness: one for early detection of misconduct, and another for allocation of enforcement resources.

PERFORMANCE MEASUREMENTS			TARGETS		
	04/05 Actuals /Baseline	**05/06 Forecast**	**06/07 Target**	**07/08 Target**	**08/09 Target**
2.1 Percentage of cases from external complaints that could have been detected earlier through internal compliance monitoring	7%[1]	8%[2]	<10%	Scheduled to be replaced	Scheduled to be replaced
2.2 Enforcement time spent on productive action	No data for 2004/2005	TBD: will be available in 05/06 Annual Report	Improve on 05/06	Improve on 06/07	Improve on 07/08

(1) Percentage is based on a small number (5 of 68).
(2) Percentage is based on a small number (6 of 73).

Measurement 2.1: Early detection of misconduct

Through our early detection efforts and investor education, we will be better able to detect misconduct earlier and take appropriate action to minimize the harm to investors. We detect misconduct through various channels, including complaints, referrals, surveillance, and our own compliance monitoring. We will assess annually the percentage of cases initiated by complaints in our case assessment or compliance branches to see what percentage we could have detected earlier with better internal compliance monitoring. Over the coming year, we will test a more effective measurement for early detection.

We are not aware of any other jurisdiction with a similar measurement.

Measurement 2.2: Effective allocation of enforcement resources

This measurement expresses how effective we are at allocating resources to cases that warrant enforcement action. We will measure litigation and investigation staff time spent

on productive action – that is, on cases where we issue a notice of hearing, enter into a settlement, or close the case in a timely way. In cases where we close investigations without action, we will assess timeliness through post-mortem analysis. We will state this measurement as a percentage of total investigation and litigation time spent on cases until resolution by notice of hearing, settlement, or closure in the reporting period. Improving this percentage over time would indicate that we were becoming more effective at allocating resources to cases we eventually prosecuted or settled.

Strategies supporting Goal 2

Strategy 2.1: Disrupt abusive junior market practices in British Columbia

Lead: Corporate Finance

We will continue dedicating resources to address Risk 3: *Abusive junior market practices*. The compliance and enforcement actions we will take to disrupt abusive junior market practices in BC include:

- Continuing cross-border and inter-agency surveillance efforts, information sharing, and enforcement action, enabling us to act more quickly and with more complete information
- Investigating and taking enforcement action on individual cases of misconduct involving the over-the-counter market
- Raising awareness among BC-connected participants in the over-the-counter market that BC securities laws apply to them, that those laws will be enforced by the BCSC, and that we work closely with the SEC to enforce BC and US securities laws
- Publicizing compliance and enforcement results of our work to maximize the deterrent effect of our actions

Strategy 2.2: Hold firms accountable through enforcement action

Lead: Enforcement

Holding firms accountable for developing, implementing, and monitoring reasonable procedures so they will meet their regulatory requirements is a cornerstone of effective regulation. If our ongoing compliance practices uncover serious cases of firm non-compliance, we will take enforcement action to reinforce our regulatory standards. We will hold the firm's senior management and directors accountable for the compliance failures in appropriate cases.

Strategy 2.3: Improve efficiency of enforcement processes

Lead: Enforcement

We use a range of enforcement tools today. In this strategy, we draw attention to our projects designed to improve efficiency in dealing with significant cases of misconduct. We have identified three specific projects for the coming year.

1. Staff allocation over the life cycle of a case

Over the last year we included litigators earlier in investigations with the aim of making the investigations more efficient. We will refine this approach over the coming year as we gain a better understanding of how we can best use litigation time to strengthen the investigation stage.

2. Learning from past cases to improve planning, case timeliness

We will complete two detailed post mortems on each case – one at the end of the investigation phase, and one at the end of the litigation phase. Through these reviews, we aim to critique individual cases for insights on how to run the entire investigative or litigation process better.

3. Reciprocal orders

We believe that the results from settlements or commission decisions will have a higher deterrent effect if other jurisdictions reciprocate our decisions. We also believe that reciprocating orders from other jurisdictions promotes efficiencies in enforcement and protects BC markets and investors by precluding these sanctioned persons from operating in BC. Misconduct is increasingly international in scope: the money may be off-shore, the respondents or victims may be out of the country, or the schemes under investigation may be run in a number of countries at once. We will work with other regulators to implement a better process to reciprocate orders across provinces, and internationally.

Goal 3: Advance smart rule-making and guidance

The costs of securities regulation are ultimately borne by investors. Every requirement imposed by regulators triggers compliance costs for market participants. Higher costs for public companies mean lower returns for their shareholders. Higher costs for securities firms mean higher fees for their clients. The BCSC's approach recognizes that to be cost-effective we must be smart in how we regulate. This means keeping our body of rules and guidance simple and clear.

The BCSC applies a rigorous standard for developing smart rules and guidance. The three main building blocks are problem definition, tool selection, and rule design. Problem definition and tool selection apply to all regulatory solutions. We describe them in *The BCSC's approach to regulation* section.

We provide guidance to market participants to help them interpret and comply with their regulatory obligations. When guidance is necessary, we seek to make it relevant, clear, flexible, consistent, and accessible.

A rule should have the outcomes-based attributes detailed in *The BCSC's approach to regulation* section, as well as the attributes described below.

- The desired outcome of a rule should be clear and measurable. If a rule merely prescribes how something must be done, rather than stating the outcome expected, it can impose a regulatory burden without yielding corresponding benefits to industry or investors. We design rules to fix market problems, not their symptoms.
- The rule must be clear and simple. Complexity can cause firms to invest heavily just to understand a rule and apply it practically.
- The scope of a rule should be limited to what is necessary to achieve the desired outcome.

Choosing the requirements of a rule is one of the critical steps in policy-making. The extensive work we have done over the past few years has shown that outcomes-based rules generally are most effective and least burdensome. However, some prescriptive requirements are appropriate where a thorough analysis has shown that the rule could not achieve the desired result through outcomes-based requirements alone.

Cost-benefit and regulatory impact analyses are tools that help us evaluate the anticipated costs and benefits of a proposed rule in relation to other possible solutions of a problem. If analysis shows that the costs of a regulatory intervention would likely outweigh the benefits, we should not proceed.

We want to persuade other regulators about the benefits of smart rule-making and guidance because the majority of market participants in BC operate nationally and must comply with national rules. We will collaborate with our colleagues, both other securities regulators and self-regulatory organizations, to foster more cost-effective national rules and guidance.

We will also advance smart rule-making and guidance with industry. Although the financial services industry supports our approach in broad terms, we recognize that industry seeks national solutions. We expect to work closely with these stakeholders to assist them in adjusting their compliance practices to a more outcomes-based regulatory environment.

We have one measurement for this goal:

- Measurement 3.1: *Percentage of BCSC rule-making principles followed*

Two strategies support this goal:

- Strategy 3.1: *Work with government and other regulators to advance smart rule-making and guidance for BC market participants*
- Strategy 3.2: *Implement effective guidance processes*

Performance measurements for Goal 3

PERFORMANCE MEASUREMENT			TARGETS		
	04/05 Actuals /Baseline	**05/06 Estimate**	**06/07 Target**	**07/08 Target**	**08/09 Target**
3.1 Average score on BCSC rule-making scorecard for the last five rules implemented	592 out of 1,000	TBD: Data will be available for 2005/2006 Annual Report	Improve on 05/06	Improve on 06/07	Improve on 07/08

Measurement 3.1: Percentage of BCSC rule-making principles followed

The BCSC is committed to developing a system of regulation that is flexible, outcomes-based, and cost effective. Rule-making is one tool we use to deal with risks to the market and investors. As part of our effort to make smart rules, we have defined 13 principles for developing new rules or rule amendments. We intend to increase our score on applying these rule-making principles.

In this performance measurement, we will report on the extent to which we are applying our rule-making principles when developing rules. Because the number of new rules adopted in a single year will vary, we will score how rigorously we applied the principles in the last five rules we adopted, and calculate a moving average.

Discontinued measurement – Regulatory count

Under the BCSC's outcomes-based regulatory approach, we must consider a range of regulatory tools to fix an identified problem. Our overall objective is to minimize regulatory burden and impose new rules only when justified. We can address many

problems without adding or changing rules or guidance. Even when we conclude that a new rule is appropriate, however, we can limit the number of requirements by rigorously applying BCSC rule-making principles.

While we will continue to count our regulatory requirements to meet the government's commitment, we will no longer report on this measurement in our Service Plan, for two reasons. First, most BC market participants must comply with requirements in other provinces, making increases in rules for BC securities market participants a reality, whether or not the BCSC adopts them.

Second, by reforming our regulatory processes, we are able to make regulations more effective and less burdensome without affecting the formal regulatory count. When we create new rules, we design them to be flexible and simple, to influence behaviour, and to solve the problem. These factors form part of our policy-making score in Measurement 3.1: *Percentage of BCSC rule-making principles followed.*

Strategies supporting Goal 3

Strategy 3.1: Work with government and other regulators to advance smart rule-making and guidance for BC market participants

Lead: Office of the Chair

We will continue to support government and other Canadian securities regulators in their efforts to make the Canadian securities regulatory system more efficient and effective, with emphasis on the passport system.

Resource constraints have limited our success to date in advancing our approach in CSA projects. By increasing our participation in key CSA projects, and reducing it in others, we hope to contribute more positively to the development of cost-effective rules that reflect our approach to regulation.

Success in this area will depend on working with CSA to better coordinate priority setting and to focus on fewer projects.

Strategy 3.2: Implement effective guidance processes

Lead: Corporate Finance

We have developed principles and procedures for providing guidance to market participants. Our purpose in issuing guidance is to help them understand and interpret their regulatory obligations, rather than to prescribe the steps they must follow to comply. Our guidance must make clear that market participants are ultimately accountable for the choices and decisions they make about how to comply with their regulatory obligations. Our guidance must also be relevant, clear, flexible, consistent, and accessible.

In the coming year, we will continue to improve how we issue guidance. We will generally consult on guidance, either by publishing the guidance for comment or by consulting interested persons directly. This year, our plans have four facets.

1. Training staff when and how to deliver individual guidance, and designing tools to gauge consistency across staff. This will help to conform individual guidance to our guidance principles.
2. Reviewing, evaluating, and starting work on revising current local general guidance to conform to our guidance principles.
3. Creating any new local, and where possible national, general guidance in a way that conforms to our guidance principles.
4. Making guidance more easily accessible.

Goal 4: Educate investors

Investor education strengthens our regulatory system by teaching retail investors how they can protect their financial interests. Our programs currently target four audiences: seniors, pre-retirement adults, religious congregations, and youth. Our programs for adults aim to teach investors how to play their role in making suitable investments and how to identify "red flags" for fraudulent activity. Our youth education focuses on financial literacy.

Investigate Before You Invest is the BCSC's core adult education and protection vehicle. This seminar targets seniors and pre-retirement adults throughout the province and is delivered by BCSC staff through partnerships with community organizations. It focuses on how investors can protect themselves from fraud and unsuitable investing, providing an overview of due diligence steps investors should take when working with a financial adviser or considering new investments. With stories taken from the BCSC's investigation files, the seminar teaches investors to protect themselves from:

- Fraud, by spotting "red flags" common to fraudulent market activity and asking key questions before buying a security
- Unsuitable investing, by:
  - Discovering what type of investor they are and their personal risk tolerance
  - Choosing a financial adviser that suits their individual needs and objectives
  - Researching potential securities

Our "affinity fraud" program targets religious congregations through seminars delivered by two Fraser Valley pastors, and through periodic media appearances and media briefings by staff. Our objective is to help groups that come together based on shared values to avoid losing money to people who prey on such groups.

We draw on our Education Fund to support a variety of other investor education initiatives, using monies we collect from sanctions. The *Securities Act* permits us to spend the money we receive from administrative penalties only for educating securities market participants and members of the public. We work with a variety of community organizations, such as senior citizens groups, unions, the Better Business Bureau, and religious leaders, who can validate our role and bring people to hear our investor education messages.

The Education Fund supports the BCSC's Planning 10 course module for BC's grade 10 students, now in its second year. Our goal is to help youth acquire the knowledge, skills and confidence they will need to begin planning for their post-secondary education or career, and to navigate the financial realities of adulthood.

In addition to Planning 10, the Education Fund supports investor education for a much broader range of young people, including:

- Grade 8 students, through the Junior Achievement program *Dollars and Sense*. This financial literacy program introduces young teenagers to topics such as financial goal setting, budgeting, money management, and the stock market.
- Students in universities, colleges, and technical schools, through the *Portfolio Management Challenge*. This program provides students with a risk free avenue for learning about the risks and rewards of investing in the stock market by managing a hypothetical portfolio of $1 million.

We have one measurement for this goal:

- Measurement 4.1: *Retention of key messages*

One strategy supports this goal:

- Strategy 4.1: *Strengthen investor education programming*

Performance measurement for Goal 4

Comprehensive performance reporting for investor education will involve measurements for satisfaction, retention, and change in behaviour.

We already evaluate our education programs for satisfaction. We have begun to develop measurements for how well investors who attend our seminars retain the messages we deliver. Seminars, while only one of the channels we use to deliver investor education, provide us with identifiable members of the public to survey. We will use these new measurements to refine our messages, raise retention levels, and develop more effective messages for delivery through other channels.

PERFORMANCE MEASUREMENT			TARGETS		
	04/05 Actuals /Baseline	**05/06 Estimate**	**06/07 Target**	**07/08 Target**	**07/08 Target**
4.1 Investor retention of key messages by follow-up surveys a) % recalling the three "knows" b) % recalling three red flags for frauds c) % recalling three due diligence actions they can take d) % understanding the BCSC's role and powers	No data for 2004/2005	TBD: Data will be available for 2005/2006 Annual Report	Improve on 05/06	Improve on 06/07	Improve on 07/08

Measurement 4.1: Retention of key messages

Education programs are only successful if we achieve our learning objectives. We want our programs to maximize the opportunities for people to recall and apply important information that will help them make better investment decisions. In the past, we measured attendees' satisfaction with our seminars. In November 2005, we took our first measure of what information participants retained from the seminars they attended. The retention factors we included were:

- Can name any of the three parts that form the seminar's primary key message
- Can list any of the 10 "red flags" that can indicate an investment scam
- Can list three due diligence actions they can take to investigate before investing
- Can correctly select four out of six services that the BCSC provides

We sent the survey to the contact people in specific target audience groups, including service clubs, trade unions, women's groups, a chamber of commerce, and a credit union, and we relied on these contacts to circulate the survey to their members. This first measurement cycle used two criteria for selecting survey targets: the organization holds regular meetings that would facilitate circulation and promotion of the survey; and the organization can reach members who are willing to complete the survey. Results from this measurement will guide our ongoing key message refinement and delivery.

The Ontario Securities Commission collects outcomes data on its investor education programs, including data on one aspect of message retention that parallels our own measurement in this area. We will look for ways to adjust our measurement methodology to allow for benchmarking with the OSC.

Strategy to support Goal 4

Strategy 4.1: Strengthen investor education programming

Lead: Communications and Education

Last year, we commissioned one major research study into investor education and began a second one in-house.

The commissioned study was a systematic analysis of the Eron Mortgage fraud. The results of this research indicate that most Eron Mortgage victims were average British Columbians, with average income and net worth, who were looking for additional sources of income to supplement their approaching retirement. These results have helped us to better target our adult investor education programs.

We started a second research study to determine if investors with good financial and basic securities knowledge are less susceptible to inappropriate investments and less likely to become victims of fraud. We have always assumed an informed investor is a better protected investor.

This year, we will apply what we have learned from these studies to get the right information to the right groups of people at the right times. We will also continue to support the CSA Investor Education Committee's efforts to deliver investor education during four life-changing events (marriage, birth of a child, pre-retirement, and financial windfall).

Service standard measurements

We have two service standards to track turnaround times for exemption applications, prospectus reviews, and salesperson registrations. We use these to hold ourselves accountable to industry for key regulatory processes where timeliness on our part is important to the businesses of our stakeholders. These service standards are a few of the key performance indicators set by division that measure our service and efficiency for incentive purposes. Meeting these standards will help support BC's reputation as a reliable and efficient place to do business.

PERFORMANCE MEASUREMENTS			TARGETS		
	04/05 Actuals /Baseline	**05/06 Estimate**	**06/07 Target**	**07/08 Target**	**08/09 Target**
Service level measurement 1: Days to complete local routine exemption applications	No data for 2004/2005[1]	93%[2] in 20 working days	80% in 20 working days[3]	80% in 20 working days	80% in 20 working days
Service level measurement 2: Days to first comment letter for BC-prime, MRRS prospectuses	91%	99%[2] in 10 working days	90% in 10 working days	90% in 10 working days	90% in 10 working days

(1) Data collection started during the 04/05 reporting period.
(2) As of September 30, 2005
(3) Based on small numbers of applications (11 in the most recent six months).

Service standard for exemption applications

In certain cases described in the *Act*, market participants can apply to the BCSC for an exemption from securities laws. We consider various factors before deciding whether to grant the relief and may grant the relief, including whether granting it is not prejudicial to the public interest. We recognize that our response time matters to industry, as service delays in the period before the commission makes a decision can unnecessarily restrict the activities of market applicants.

We will measure what percentage of routine exemption requests we complete within 20 business days. Our target service level is to complete 80% within that 20-day period.

Service standard for prospectus reviews

When BC-prime public firms raise capital by prospectus, the BCSC must issue a receipt for the prospectus before the issuer can complete their offering. To facilitate these normally time-sensitive offerings, we must complete our work efficiently. We have set a clear service standard for timeliness of issuing receipts so issuers know what to expect.

We aim to send initial comments letters to issuers within 10 business days 90% of the time.

Alignment with Government's Strategic Plan

Our Service Plan aligns with Goal 1 and Goal 5 in the government's Strategic Plan. The other three goals are not relevant to our mission.

Government Goal 1: Make BC the best-educated, most literate jurisdiction on the continent

We support this goal in the following ways.

- We provide BC high school teachers with an award-winning financial literacy program for youth. This Ministry of Education-endorsed resource for the Planning 10 Finances curriculum helps young people acquire the knowledge, skills, and confidence they will need to begin planning for their post-secondary education or career, and to navigate safely through the financial realities of adulthood.
- Through direct participation in Junior Achievement, and the Portfolio Management Challenge, we support investor education that targets grade 8 students and post-secondary students respectively.
- We support lifelong learning by offering investor education throughout the province, primarily to seniors and pre-retirees. *Our Investigate Before You Invest* program teaches how to avoid becoming a victim of fraud and how to avoid making unsuitable investments.

Government Goal 5: Create more jobs per capita than anywhere else in Canada

We support this goal in the following ways.

- By fostering a local market that is fair and warrants investor confidence, we further BC's reputation as a centre for raising capital to launch and grow businesses
- By minimizing the regulatory burden, we encourage investment in BC by fostering a dynamic and competitive securities industry that makes our province attractive to businesses looking for new markets where they can operate economically

Both of these aspects of our business support job creation.

Summary financial outlook

Overview

We aim to operate the BCSC at a breakeven level. This is challenging because most of our costs are fixed, while our revenues fluctuate with market activity.

We expect a modest surplus in 2005-2006, and to break even in 2006-2007.

This surplus stems, in part, from recent and proposed changes in filing cycles, which cause some market participants to pay annual filing fees twice in either 2005-2006 or 2006-2007. Breaking even in 2007-2008 and 2008-2009 may require filing fee increases or cost reductions.

The following table summarizes our actual and expected results of operations:

Summarized Statements of Operations

(000,000's)	04/05 Actual	05/06 Forecast	06/07 Budget	07/08 Projection	08/09 Projection
Revenue					
Filing fees					
Prospectus and other distributions	13.3	14.2	14.1	14.4	14.8
Registration	8.1	8.4	8.6	8.8	8.9
Financial Filings	4.7	5.1	4.4	4.5	4.5
Other fees	0.5	0.5	0.5	0.5	0.5
	26.6	28.2	27.6	28.2	28.7
Other revenue					
Enforcement cost recoveries	0.3	0.1	0.2	0.2	0.2
Investment income	0.4	0.4	0.7	0.8	0.9
Total Revenue	27.3	28.7	28.5	29.2	29.8
Expenses					
Salaries and benefits	19.7	20.2	21.0	21.5	22.1
Other operating expenses	7.0	7.1	7.4	7.7	7.8
Total Expenses	26.7	27.3	28.4	29.2	29.9
General Surplus for the year	**0.6**	**1.4**	**0.1**	**-**	**(0.1)**
Education Revenues					
Investment income	0.1	0.1	0.1	0.1	0.1
Penalties and designated settlement revenue	0.9	0.7	0.5	0.5	0.5
	1.0	0.8	0.6	0.6	0.6
Education Fund disbursements	2.1	1.1	1.2	0.6	0.6
Education Fund Deficit for the year	**(1.1)**	**(0.3)**	**(0.6)**	**-**	**-**
Consolidated (Deficit) / Surplus for the year	**(0.5)**	**1.1**	**(0.5)**	**-**	**(0.1)**
Capital expenditures	*0.4*	*0.3*	*0.5*	*0.5*	*0.5*
Average FTEs	*195.0*	*193.0*	*193.0*	*191.0*	*190.0*

Operating expenses

We are committed to managing our expenses so they do not exceed the revenue expected over the business cycle. We do this by:

- Preparing an annual budget approved by the commission
- Reporting budget variances monthly to management
- Requiring commission approval for significant unbudgeted expenses
- Continually improving the efficiency of our processes

We expect operating expenses to grow modestly over the planning period. Annual performance-based salary increases drive most of our non-project expense growth. We expect annual salary increases to average 3.3%. With the exception of activity-based expense changes, we expect all other expenses to increase at the government-forecasted, 2.1%, annual rate of inflation.

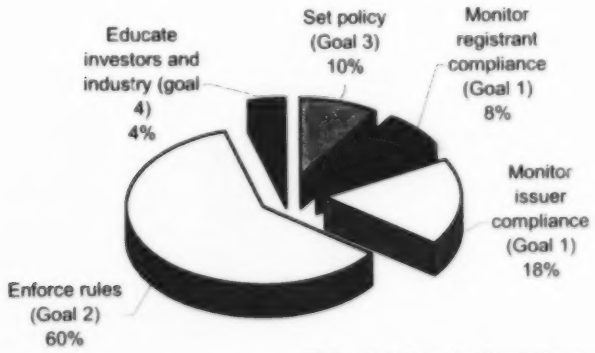
Operating Expense Growth

(000,000's)	03/04 Actual	04/05 Actual	05/06 Forecast	06/07 Budget	07/08 Projection	08/09 Projection
Operating Expenses						
Expenses, excluding education disbursements	27.2	26.7	27.3	28.4	29.2	29.9
Operating expense growth	-1.8%	-1.8%	2.4%	4.1%	2.4%	2.8%

Salaries and benefits

Staffing costs are almost 75% of our operating expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes annual merit-based salary increases and a performance-based incentive program. To remain competitive, we conduct salary surveys annually and adjust salaries that are too low. We credit our low employee turnover to the combined effects of the comprehensive benefits package and the work-life balance we offer, which tend to be better than that offered by our competitors.

We spend our salaries and benefits budget in five areas[2]:


Educate investors and industry (goal 4) 4%
Set policy (Goal 3) 10%
Monitor registrant compliance (Goal 1) 8%
Monitor issuer compliance (Goal 1) 18%
Enforce rules (Goal 2) 60%

(2) Overhead costs allocated proportionately.

Planned results reflect the following significant staffing assumptions:

- 3.3% per year average general increase in salaries and benefits costs
- Staff size of 193 FTEs on March 31, 2006
- Employer pension premiums increase 25% ($0.3 million) on April 1, 2006
- An average of three fewer full-time staff (FTEs) by the end of 2008-2009 (vs. 2005-2006). We will accomplish these reductions through attrition.

Professional services

Professional service costs relate primarily to:

- Legal services to defend our actions when appealed to higher courts
- Fees paid to the IDA for registration services delegated to them
- Our share of CSA project and management costs
- Legal services to support policy development
- Corporate services activities, including disaster recovery facility and internal audit costs

We expect only inflationary growth in professional service costs over the planning period.

Rent

We have leased office space to November 2011 at an annual rent, net of sublease recoveries, of about $0.8 million until November 2006, and $0.9 million thereafter. We also pay a proportionate share of the building's operating and maintenance costs, which we do not expect to grow more than inflation over the planning period.

Depreciation and capital expenditures

We depreciate our leasehold improvements, fixtures, and information technology over their useful lives using the straight-line method. We estimate the useful lives of our assets to be:

- *Information technology* – four years
- *Leasehold improvements* – the shorter of the length of the remaining lease term and the length of the estimated useful life of each improvement
- *Office furniture and equipment* – 10 years

We expect depreciation to average $1.1 million per year over the planning period.

We expect planned capital spending to reach $0.3 million in 2005-2006 and to average $0.5 million per year over the remainder of the three-year planning period. Capital spending will relate primarily to computer systems and applications.

Operating revenues

Fees related to market participants' prospectus and other distribution filings, annual registrations, and financial statement filings fund our operations. These fees fluctuate with capital market activity.

Fee revenues should grow by about 4.5% in 2005-2006 for the following reasons:

- The positive impact of higher non-prospectus (i.e. private placement) and gross mutual fund sales
- Filing deadline changes that temporarily increased financial statement filing revenues

We expect fee revenues to decline by 2.2% in 2006-2007 when financial statement filing volumes return to normal. In addition, although fees related to mutual fund distributions will likely increase another 20%, that growth will be offset by a 25% decrease in fees related to non-prospectus distributions, which grew extraordinarily in 2005-2006. For the remainder of the planning period, we expect revenues to increase modestly, either through increases in market activity or filing fee increases.

Each 1% change in our fee assumptions alters forecast revenues by about $1.8 million over the planning period.

Fee Revenue Growth

(000,000's)	04/05 Actual	05/06 Forecast	06/07 Budget	07/08 Projection	08/09 Projection
Fee Revenue					
Revenue from fees[1]	26.6	28.2	27.6	28.2	28.7
Fee revenue growth rate	8.2%	4.5%	-2.2%	2.2%	2.2%

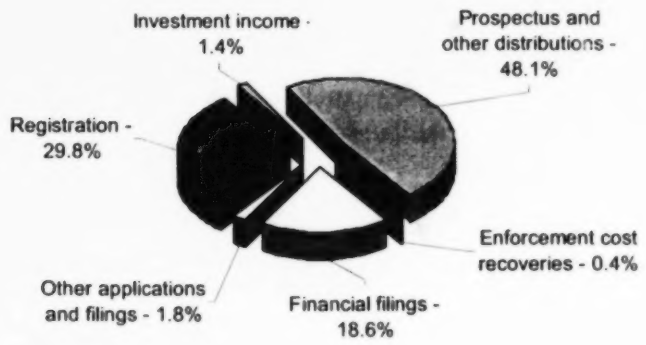
[1]Net of 0.3 million temporary fee reductions that expire in 2009-2010.

Fee Stabilization Reserve

Since 1998 we have maintained an internal allocation of our accumulated surpluses called the Fee Stabilization Reserve (FSR). The FSR ensures that temporary reductions in revenue do not immediately impair our ability to operate, or force reactive fee changes. We expect an FSR balance of about $12.0 million as of March 31, 2006. If sufficient non-current assets become available, we will increase the FSR to $13.0 million over the planning period. We will also draw on the FSR, if needed, over the planning period.

Revenue sources

Our operating revenue consists of fees from these sources: prospectuses and other distributions; registrations; financial filings; other applications and filings; enforcement cost recoveries; and investment income, as described below.


Investment income - 1.4%
Prospectus and other distributions - 48.1%
Registration - 29.8%
Enforcement cost recoveries - 0.4%
Other applications and filings - 1.8%
Financial filings - 18.6%

Prospectus and other distributions

The largest share of our revenue comes from prospectuses, exempt distribution reports, and annual information forms.

Prospectus - 35%

A prospectus is a detailed document normally prepared when an issuer (typically, a mutual fund or company) plans to sell securities to the public. Issuers pay us a fee when they file a prospectus. When sales under the prospectus exceed $7.5 million, an additional fee, called a "percent of proceeds" fee, may be payable.

Exempt distribution report - 7%

When issuers distribute securities under exemptions from our prospectus requirements, they must report those sales and the exemptions they relied on. Issuers pay a fee to file an exempt distribution report. When reported sales exceed $0.3 million, an additional fee may be payable.

Annual information form - 5%

An annual information form is a detailed document required annually from senior issuers (most commonly, issuers trading on the TSX Exchange). It must disclose all important facts about the issuer.

We expect 20% ($0.8 million, including RSP clone fund impact) higher "percent of proceeds" fees from prospectus filers in 2006-2007. Filers, mostly mutual fund issuers, pay these fees in arrears. Analyzing current mutual fund gross sales statistics helps us to predict changes in revenue. Mutual fund industry statistics show that gross fund sales

were 39% higher during the twelve-month period ended November 30, 2005 compared to the prior twelve-month period. We estimate a much lower increase in 2006-2007 percent of proceeds fees because much of the funds' increased sales will be under the fee threshold. In addition, in February 2005, the federal government eliminated RRSP foreign content limits. The mutual fund industry responded by merging the 200 or so RSP clone funds with their parent funds over the following months. We expect a one-time revenue increase of $0.25 million in 2006-2007 because of these fund mergers.

We expect 25% ($0.6 million) lower exempt distribution report fees in 2006-2007. These fees will have increased about 40% ($0.8 million) in 2005-2006 after already growing 30% ($0.4 million) in 2004-2005. After such extraordinary growth, we expect exempt market activity and therefore exempt distribution report fees, to decline somewhat in the coming year.

Excluding timing differences, we expect 2.5% growth in all prospectus and distribution filing fees over the remainder of the planning period.

Registrations

Qualified individuals who wish to sell or advise on securities in BC must apply to us for registration and then pay an annual fee to maintain it. Annual registration fees are paid to us in advance and we recognize the revenue over the following calendar year.

We expect registration revenues to grow by 4.0% in 2005-2006 but have forecast modest growth of 2% per year thereafter because we anticipate a slowdown in new registrants due to consolidating industry trends, such as online investing.

Financial filings

Public companies (typically mutual funds and exchange-listed companies) pay financial filing fees with their quarterly and annual financial statement filings.

Historically, financial filings revenue has not been volatile, except for the effects of temporary fee reductions and filing cycle changes. However, we expect filing cycle changes to increase financial filings revenue by $0.4 million, or 8%, in 2005-2006. Once filing cycles return to normal in 2006-2007, we expect financial filings revenue to grow by 2% per year over the planning cycle.

Other applications and filings

Market participants pay fees in this category primarily when requesting exemptions from *Securities Act* requirements.

We expect growth in this revenue stream in 2005 – 2006. This follows several years of decline related to our decision to reduce the need for exemptions through general exemption orders that apply to all market participants. With the majority of these

"blanket" exemption orders in place, we do not expect exemption application revenue to decline further over the remainder of the planning period.

Enforcement cost recoveries

We do not consider cost recoveries part of our core operating revenues because they depend on the nature and timing of enforcement actions completed during the year, and on our ability to collect assessed amounts. For this reason, we recognize revenue from recoveries of enforcement costs only when we receive payment.

We budgeted a conservative amount for 2006-2007 enforcement revenue by basing it on the five-year average after excluding unusually large receipts in any particular year. We have assumed no growth in enforcement revenue over the planning period.

Investment income

We invest conservatively and realize modest returns in our investment portfolio. Most of our funds are in investment pools managed by the British Columbia Investment Management Corporation (bcIMC), a BC government organization. About half of our bcIMC-invested funds are in 15-month or shorter money market instruments through its ST2 fund; the rest are in its Short Term Bond fund, which invests in Canadian bonds that mature within ten years, issued or guaranteed by Canada, or a Canadian province.

We have assumed investment yields between 3.6% and 4.75% over the planning period, based on Treasury Board forecasts.

Education Fund revenue and expenses

The Education Fund is comprised of money collected from administrative penalties for breaches of the *Securities Act*, and from settlement payments. Under the *Act*, administrative penalty receipts may be used only to educate market participants and the public about investing, financial matters and the operation or regulation of securities markets.

Education revenue

Revenue from settlements and administrative penalties is difficult to accurately predict because it depends on the nature and timing of enforcement actions completed during the year, and on our ability to collect assessed amounts. We have therefore used the long-term historical average to estimate 2006-2007 income, and have forecast no growth over the remainder of the planning period.

Education expenses

We disburse our Education Fund at the discretion of the commission. We expect to disburse $1.1 million in 2005-2006 and $1.2 million in 2006-2007. Because fund outflows are discretionary, we have assumed that fund disbursements will equal fund inflows over the remainder of the planning period.

The most significant component of 2005-2006 and 2006-2007 education expenses relates to developing and producing a financial planning course module (Planning 10) for grade 10 students. Our award-winning Planning 10 module includes teaching materials, an illustrative DVD, student portfolios, and a supporting website. To date we have spent about $1.8 million on Planning 10. We expect to spend $0.3 - $0.5 million on Planning 10 each year over the remainder of the planning period.

The Education Fund balance was $2.8 million at the end of 2004-2005. We expect the fund balance will decline to, and then stabilize at, $1.9 million by the end of 2006-2007.

Financial position

The following table summarizes our actual and expected financial position:

Summarized Balance Sheets

(000,000's)	04/05 Actual	05/06 Forecast	06/07 Budget	07/08 Projection	08/09 Projection
Assets					
Current assets:					
Cash and short-term investments	4.2	7.0	6.8	7.6	8.4
Other current assets	0.6	0.6	0.6	0.7	0.6
	4.8	7.6	7.4	8.3	9.0
Designated investments	14.7	14.6	14.9	14.9	14.9
Capital assets	5.1	3.9	3.3	2.7	2.1
	24.6	26.1	25.6	25.9	26.0
Liabilities					
Current liabilities:					
Trade payables and accruals	0.5	0.5	0.6	0.5	0.5
Accrued remuneration costs	3.3	3.5	3.6	3.8	3.9
Deferred registration revenue	5.5	5.6	5.7	5.8	5.9
	9.3	9.6	9.9	10.1	10.3
Surpluses					
General	0.7	1.9	0.8	0.9	0.8
Fee stabilization reserve	11.8	12.0	13.0	13.0	13.0
Education reserve	2.8	2.6	1.9	1.9	1.9
	15.3	16.5	15.7	15.8	15.7
	24.6	26.1	25.6	25.9	26.0

Risks and opportunities

Fee revenue

Market activity has increased since the fiscal 2002 through 2004 years when lower market activity, and our planned temporary fee reductions, decreased our fee revenues. Present fee levels and market activity are allowing us to operate at break-even and have sufficient cash reserves to support our operations for the foreseeable future. We continually monitor market activity to ensure revenues are sufficient to support our operations on a break-even basis.

National electronic filing systems

About 90% of our fee revenue is collected through the SEDAR and NRD electronic filing systems. Under various agreements with the CSA, CDS INC. (CDS) operates the SEDAR, SEDI, and NRD electronic filing systems. Should CDS become unable or unwilling to continue to operate these systems, the CSA would have to contract another party to host them.

CDS operates the SEDAR electronic filing and payment system on behalf of the Canadian Securities Administrators (CSA) under an August 1, 2004 agreement with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission, and l'Autorité des marchés financiers (the CSA Principal Administrators). Under the agreement:

- The CSA Principal Administrators must pay CDS if SEDAR operating costs exceed revenues (a "shortfall"). Our portion of that guarantee is limited to 15.4% of any shortfall. The chance of an operating loss is low, however, because SEDAR typically generates positive operating results. Revenues and expenses do not vary much from year to year and the CSA participate in setting the system's annual operating budget.
- CDS must pay SEDAR revenues in excess of system operating costs (a "surplus") to the CSA Principal Administrators. Any surplus is not divisible: the CSA Principal Administrators own it as a group.

CDS has paid $8.4 million, in trust, to the OSC. This represents surpluses generated by SEDAR during the November 1, 2002 to October 31, 2005 period. The CSA Principal Administrators have agreed that these funds will be used only for the benefit of national filing system users through system enhancements or usage fee adjustments.

Securities regulatory reform

We have been supporting government's work to implement the regulatory reforms outlined in the Provincial / Territorial Memorandum of Understanding Regarding Securities Regulation (Passport MOU), signed September 30, 2004 by most of Canada's provincial ministers responsible for securities regulation. The agreement proposes single window access to capital markets in participating provinces and territories, and a review of the regulatory fees charged in the context of the passport system. We adopted rules that support the first phase of this harmonization process on September 19, 2005. The first phase did not materially affect our operations.

While the Passport MOU may ultimately change what we do and how we fund our operations, we have forecast no impact on our revenues and expenses because we expect any changes to have no net impact on our bottom line.

Appendix A. Review of performance measurement systems for each Service Plan measurement

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
Measurement 1.1: Continuous disclosure review					
Independent evaluation against criteria set by BCSC staff	Manual submission of reviewer's report	Collected annually	Measurement relies on objective professional judgment of disclosure quality	Measures work done 12-24 months before the report: issuers cited by the BCSC from April 2006 to March 2007 will be reported on in May 2008.	Electronic system creates list of issuers with significant deficiencies. Reviewer then randomly selects issuers from the list to assess.
Measurement 1.2: Compliance with filing requirements					
Internal database	Manually compiled	Collected continually; only relevant as a measurement at year end	- Firms who proceed to delist are captured in this measure - An issuer can be in default between week-to-week list publications, and would be omitted from this measurement	Measurement reflects firms on defaulting list at some point during fiscal year	Internal control environment

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
Measurement 1.3: Average number of deficiencies per securities firm examination					
Data entered manually based on exam deficiency letters	Data comes from a manually-updated Excel spreadsheet, and is adjusted for targeted reviews	Collected at year end	- Measurement relies on a our classification of compliance problems, which can change every year - Small data set - Measurement relies on judgment of evaluators	Measurement reflects data from exam letters sent during annual reporting period	Internal control environment
Measurement 1.4: Timeliness and relevance of industry education					
Data stored and analyzed electronically	Collected through paper and electronic surveys from recent industry education participants	Collected regularly	Survey response rate could be low, making statistical significance hard to draw May have sample bias as response is voluntary	Measurement reflects surveys received during the reporting period	Automated survey collection/ reporting tool
Measurement 2.1: Early detection of misconduct					
- Underlying data comes from internal computer systems - Additional data created manually	Collected manually	Collected at calendar year end	- Measurement relies on professional judgment - Small data set	Measurement reflects cases opened in a calendar year	Internal controls for records kept in regular course of business

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
Measurement 2.2: Effective allocation of enforcement resources					
Time data comes from internal computer system. Case results come from manual management tracking sheet.	Time data computer generated, and then manually paired with case outcome and management categorization.	Collected at year end	- Management judgment required for categorizing case - Measurement does not track all time within a given year; cases come into the measurement once they are closed or move to litigation	Measurement reflects all the time spent on the cases closed in investigations in a calendar year	Internal controls for records kept in regular course of business
Measurement 3.1: Percentage of BCSC rule-making principles followed					
Internal evaluation based on achieving 13 objectives.	Collected manually	Collected at end of Service Plan process and at year end	- Measurement relies on judgment of evaluators: Executive Director evaluates a new rule together with staff, brings to full-time commissioners for review before final score made - Measurement scoring may change if objectives are added or dropped	Measurement based on five most recent rules put into effect in BC as of the end of the reporting period	Discussion on logic for each measurement documented for review.
Strategy 4.1: Retention of key messages					
Data stored and analyzed electronically	Collected through paper and electronic surveys from recent IBYI participants	Collected regularly	- Survey response rate likely to be low, making statistical significance hard to draw - May have sample bias as response is voluntary	Measurement reflects surveys received during the reporting period	Automated reporting tool

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
Service level measurement 1: Service standard for exemption applications					
Internal computer systems	Computer generated list, cleaned to remove non-routine applications	Collected quarterly	Measurement relies on professional judgment. Market demand may result in small measurement base in any given year.	Measurement reflects exemption applications completed during reporting period	Internal control environment
Service level measurement 2: Service standard for prospectus reviews					
Cases and service days tracked on internal computer system	Computer generated list, adjusted to remove non-prime firms	Collected quarterly		Measurement reflects data for first comment letter sent over annual reporting period	Tracking system does not permit backdating, so measurements, if anything, will reflect longer than the process took Fully automated link to new cases